



Halo Effect Moderating: Impact of Professional Skepticism on Auditor Performance



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Abstract

The Public Accountant profession has a role in supporting a healthy and efficient economy and increasing transparency and quality of financial information. Good auditor performance is needed to provide transparent and quality financial information to all interested parties. Good auditor performance can be carried out if an auditor is able to maintain professional skepticism and other factors in carrying out audit assignments and is not affected by factors that can reduce professional skepticism, one of which is the occurrence of a halo effect in assessing the client's overall business risk. The research was conducted to provide empirical of the halo effect in moderating professional skepticism on the auditor performance at *Public Accounting Firm (KAP)* in Bali Province. The population in this research were all KAP auditors in Bali Province which registered in the Directory and published by Indonesian Institute of *Certified Public Accountants (IAPI)* in 2019. The sampling technique used purposive sampling with the auditor criteria who are actively working in KAP in Bali Province and has audit experience of at least one year and ever been a team leader in the audit at least once.

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1. Introduction

Auditors as a profession of public trust have begun to question their performance in terms of examining and evaluating company reports. This is because there are auditors who fail to evaluate the evidence because the objectivity principle is not applied, the lack of understanding of existing audit procedures and auditors tend to trust the client so that it will lead to bias in conducting an assessment resulting in a decrease in audit quality produced. The auditor's profession has high responsibility. Good performance is needed because the auditor profession has an important role

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in providing reliable financial information to the government, investors, creditors, debtors, shareholders, employees and the public and other interested parties.

Falikhatusun (2003), states that the increase in performance in his work is influenced by certain conditions, namely conditions originating from within an individual called individual factors and conditions that originate outside the individual called situational factors. Professional auditor skepticism is the attitude of the auditor who always doubts and questions everything, and critically assesses audit evidence and takes audit decisions based on his auditing expertise. Professional skepticism is one of the factors that arise in the internal individuals that influence the improvement of auditor performance. Auditor professional skepticism is an attitude or mindset of auditors who are always vigilant and question the correctness of audit evidence presented by a business entity or company (Purwanti & Astika, 2017; Aditya & Kusuma, 2019).

A skeptical auditor, will not take for granted an explanation from the client but will ask questions to obtain reasons, evidence and confirmation regarding the object in question. Nila (2014), states that an auditor's performance is good for the fairness of a financial report, can be carried out through skepticism to be able to decide or determine the extent of the accuracy and truth of the evidence. Professional skepticism will assist the auditor in critically assessing the risks faced and taking into account these risks in various decisions to accept or reject clients, choose appropriate audit methods and techniques, and assess audit evidence collected. Without applying professional skepticism, the auditor will only find misstatements caused by mistakes and it is difficult to find misstatements caused by fraud because fraud will usually be hidden by the perpetrators (Noviyanti, 2008). The auditor is required to carry out his professional skepticism so that the auditor can use his professional skills carefully and thoroughly because the professional skills of an auditor influence the results of the work he gives (Luz, 2012).

Previous research on professional skepticism on auditor performance has been carried out by Priestly & Budiarta (2017), giving results that professional skepticism has a positive effect on auditor performance in public accounting firms in Bali. Professional skepticism, in this case, provides more audit information results and strongly supports the performance of an auditor. Sari *et al.*, (2016) and Rahmawati *et al.*, (2019), also revealed that professional skepticism has a positive effect on auditor performance. Auditors who are skeptical will not rush to make a decision before the information can be valid and always carry out critical evaluations. However, this is not in line with the research of Peytcheva (2013), which states that skepticism does not have an additional effect on auditor performance.

Murray (1990), explains that in order to reconcile conflicting results a contingency approach is needed to identify other variables that act as mediating variables or moderating variables. In this study using the Halo Effect variable as a moderating variable because this variable is thought to have an effect on the relationship of professional skepticism to auditor performance. Koroy (2005), explains the halo effect can affect the auditor's professional skepticism by influencing the way he deals with client preferences and ambiguous and disconfirming information. Halo Effect is defined as the effect of a global evaluation based on one's individual attributes, this applies especially if a person does not have enough information about all of a person's characteristics (Thorndike, 1920; Dewi *et al.*, 2018; Negara & Budiarta, 2019).

Halo Effect causes auditor perceptions to vary and leads to confidence in certain audit conditions. Halo Effect usually occurs during the first meeting and occurs due to the way of thinking of individuals who tend to make categorizations regarding human nature, namely categories of good and bad traits. Viewed from this perspective the halo effect error can be considered as a special subcategory of hasty generalizations, or generalizations of insufficient evidence (Thorndike, 1920 and Grcic, 2008).

The Nisbet & Wilson (1997) study in Arel *et al.*, (2005), states that the phenomenon of halo effects occurs in various work evaluation contexts. These findings provide evidence that auditor judgment can be biased by the existence of a halo effect. Utami *et al.*, (2014), the study also strengthened the research of Arel *et al.*, (2005), which found that the halo effect phenomena occur between auditors. This is contrary to the expectations of Gramling *et al.*, (2010), the findings do not provide evidence that knowledge of inherent risk factors creates halo effects that can affect the auditor's judgment. Auditing judgment accuracy is one indicator that can be used to measure auditor performance.

Koroy (2005), also stated the need for behavioral research in auditing to increase knowledge in improving auditor performance. In this case, the evidence leads to the fact that auditors in the public accounting environment are subjects that can be influenced and have the potential to compromise their professional decisions (Rahmawati & Honggowati, 2004).

Research on auditor performance is still very necessary because the auditor's function (testing) has a problem or conflict that arises, one of which is the existence of disagreement between the auditor and the client will influence the audit process so the client can press the auditor to take actions that violate the inspection standards. Based on the

background above, this study takes the title of Halo Effect as Moderating the Effects of Auditor Professional Skepticism on Auditor Performance at the Bali Regional Public Accountant Office.

Literature Review and Hypothesis Development

The Effect of Professional Skepticism on Auditor Performance

Specifically in auditing, in the Professional Standards of Public Accountants, it is explained that professional skepticism is an attitude that includes a mind that is always questioning, alert to conditions that may indicate the possibility of misstatements either caused by fraud or errors, and an important assessment of audit evidence (IAPI, 2011). An auditor's professional skepticism is needed in assessing and critically taking into account the risks faced to accept or reject clients, choose appropriate audit methods and techniques, assess audit evidence collected. Skeptical auditors will not take the explanation from the client for granted but will ask questions to obtain reasons, evidence, and confirmation regarding the object in question and always be aware of contradictory audit evidence so that the resulting judgment will be optimal (Rusyanti, 2010). Without applying professional skepticism, the auditor will only find misstatements caused by mistakes and it is difficult to find misstatements caused by fraud because fraud will usually be hidden by the perpetrators (Noviyanti, 2008). Research conducted by Rahmawati *et al.*, (2019), found that an auditor who has professional skepticism is able to provide maximum and objective financial statements. The effect of professional skepticism on auditor performance in terms of providing more and more significant results of audit information than auditors who have a low level of professional skepticism, and this results in auditors having high professional skepticism. Will be better able to detect fraud because of the information they have. Priesty & Budiarta (2017) and Sari *et al.*, (2016), also provides results that professional skepticism has a positive effect on auditor performance in public accounting firms in Bali. Professional skepticism, in this case, provides more audit information results and strongly supports the performance of an auditor.

H1: Professional skepticism has a positive effect on Auditor Performance.

Halo Effect Moderates the relationship between Professional Skepticism on Auditor Performance

Thorndike (1920), defines a halo effect as the effect of a global evaluation based on one's individual attributes, this applies especially if someone does not have enough information about all of a person's characteristics. In auditing, a halo effect arises from the overall assessment of a client's business risk and can be biased with the auditor's performance related to potential misstatement as evidenced by detailed information on the pattern of account balance fluctuations (O'Donnell & Schultz, 2005). Research by Octavian & Intiyas (2016), explains that the effect of a high halo effect will result in audit decisions with a low level of accuracy. The research of Arel *et al.*, (2005), explains that the halo effect will make auditors tend to believe in their initial assessment so that it will produce inappropriate audit decisions. Halo Effect causes the auditor to easily trust the information obtained and will ignore facts that have not been revealed about the client during the audit process. Auditors with a high level of trust in clients will cause professional skepticism to decline so that it will affect the decline in the quality of audit performance. Based on the description above, the formulated hypotheses are as follows:

H2: Halo Effect can weaken the influence of professional skepticism on auditor performance.

2. Materials and Methods

This research was conducted at the Public Accounting Firm (KAP) in Bali Province which is listed in the Directory published by the Indonesian Institute of Certified Public Accountants (IAPI) in 2019. The population in this study were all auditors at the Public Accounting Firm in Bali Province registered in the published Directory. by the Indonesian Institute of Certified Public Accountants (IAPI) in 2018. The sampling technique used in this study was purposive sampling, with the criteria of auditors who were sampled having a minimum tenure of years of work or audit experience ever been a team leader in the audit at least once. The data analysis model and hypothesis testing in this study are simple linear regression analysis models, multiple linear regression analysis models and moderated regression analysis.

3. Results and Discussions

The results of the linear regression analysis models are presented in Table 1.

Tabel 1
Linear Regression Analysis

Variable	Unstandardized Coefficient		Standardized Coefficient	T	Sig.	Keterangan
	B	Std. Error	Beta			
Constant	3,630	2,478		1,465	0,149	
Professional Skepticism	0,458	0,054	0,752	8,468	0,000	H ₁ accepted

R Square = 0,566
F count = 71,703
Sig. F = 0,000
Primary Data, 2019

The results of the multiple regression analysis models are presented in Table 2.

Tabel 2
Multiple Regression Analysis

Variable	Unstandardized Coefficient		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
Constant	34,793	8,696		4,001	0,000
Professional Skepticism	0,091	0,110	0,150	0,827	0,412
Halo Effect	-3,937	1,062	-0,672	-3,708	0,000

R Square = 0,654
F count = 51,034
Sig. F = 0,000
Primary Data, 2019

The results of the moderated regression analysis models are presented in Table 3.

Tabel 3
Moderated Regression Analysis

Variable	Unstandardized Coefficient		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
Constant	-0,804	18,411		-0,044	0,965
- Professional Skepticism	0,870	0,374	1,428	2,327	0,024
- Halo Effect	4,248	3,903	0,725	1,088	0,281
- Interaction Professional Skepticism and Halo Effect	-0,186	0,085	-0,64	-2,174	0,034

R Square = 0,682
F count = 37,944
Sig. F = 0,000
Primary Data, 2019

Determination Coefficient

Based on Table 1 the Adjusted R-square value of 0,566 shows that the changes that occur in auditor performance can be explained by professional skepticism of 56,6 percent, the remaining 43,4 percent is influenced by other variables not included in this research model.

Based on Table 2 the Adjusted R-square value of 0,654 shows that the changes that occur in auditor performance can be explained by professional skepticism of 65,4 percent, the remaining 34,6 percent is influenced by other variables not included in this research model.

Based on Table 3 the Adjusted R-square value of 0,682 shows that the changes that occur in auditor performance can be explained by professional skepticism of 68,2 percent, the remaining 31,8 percent is influenced by other variables not included in this research model.

The Result of Hypothesis

The Effect of Professional Skepticism on Auditor Performance

The first hypothesis of this study states that professional skepticism has a positive effect on auditor performance. The test results of the professional skepticism variable using simple linear regression show a positive regression coefficient of 0.481. The level of significance indicates a value of 0,000 which is smaller than the acceptable error rate of 5% ($0,000 < 0,05$). Positive regression coefficient values indicate a unidirectional relationship between professional skepticism and auditor performance. The higher the professional skepticism of the auditor, the higher the performance will be.

Professional skepticism is the attitude of the auditor who always doubts and questions everything and critically assesses audit evidence and takes audit decisions based on his auditing expertise. Auditors who have a high attitude of professional skepticism will not be easily affected by the information provided. However, auditors who have a low attitude of professional skepticism, will trust the information conveyed by management and influence the decline in auditor performance as explained in cognitive theory that personal character has a direct relationship to individual decision making and attribution theory that other aspects of individual behavior exist in a person, external causes can also influence a person's attitude or behavior in this study is professional skepticism. The results of this study support the research conducted by [Rahmawati et al., \(2019\)](#); [Priesty & Budiarta \(2017\)](#); and [Sari et al., \(2016\)](#), which states that auditor professional skepticism has a positive effect on auditor performance.

Halo Effect Moderate the Effects of Professional Skepticism on Auditor Performance

According to [Ghozali \(2016\)](#), the determination of the moderator variable is based on its relationship with the criterion variable (independent) and its interaction with the predictor variable (dependent). Based on the results of the analysis in Table 2, it shows that the halo effect has a negative regression coefficient of 3.937 with a significance level of 0.000 which is smaller than the acceptable error rate of $< 0,05$. This shows that there is a relationship between the halo effect and auditor performance. The relationship between the interaction between professional skepticism and the halo effect on auditor performance can be seen in Table 3 which shows that the regression coefficient of interaction between professional skepticism and negative halo effect is 0.186 with a significance level of 0.034 which is smaller than the acceptable error rate $< 0,05$. This shows that the halo effect interacts with professional skepticism. Based on these results, it can be concluded that the halo effect is a quasi moderation variable (quasi moderator).

According to [Utama \(2016\)](#), if the moderating variable interacts with the independent variable and correlates significantly with the dependent variable, then the moderation variable strengthens or weakens the influence of the independent variable on the dependent variable, namely by observing the regression coefficient (β) independent variable interaction and moderation variable. Based on Table 3, the regression coefficient of professional skepticism (β_1) is positive at 0.870 and the regression coefficient of professional skepticism interaction with negative halo effect (β_3) is 0.186 with a significance level of 0.034 which is smaller than the acceptable error rate $< 0,05$, then H2 is accepted. This means that the halo effect weakens the influence of professional skepticism on auditor performance. The results of this study support the attribution theory, a theory that explains that there are behaviors that are related to individual attitudes and characteristics. This theory explains that only by looking at his behavior will be able to know the attitude or characteristics of the person. The auditor's performance can be seen in his personal characteristics. Personal characteristic is an internal factor that encourages a person to carry out activities. The personal characteristics

of the auditor are seen from the attitude of professional skepticism and the ability to overcome the effects of the halo effect. The results of this study also support the theory of aspects of psychological bias. This theory has a role in shaping individual behavior in decision making. [Korroy \(2005\)](#), explains that different people will reach different conclusions in understanding the same information. Psychological bias distorts how people interpret information. Psychological bias causes people to tend to choose the information that leads to their perceptions, regardless of whether the information is right or wrong because they prefer information that fits their beliefs.

Halo Effect usually occurs during the first meeting with the client. At that time an auditor can make varied assessments so that his assessment of the client can be biased and subjective. Thoughts can cause the auditor to ignore facts about the client being audited, or when interacting. [Pramesthi \(2013\)](#), explains that often accountants are subjective and there is a close relationship between KAP and its clients, even the most honest and careful auditors will inadvertently distort the numbers so that they can cover up the actual financial situation of a company. Auditors affected by the Halo Effect will ignore important information from clients which can be said that he did not apply his skepticism.

The effect of Halo Effect which lowers the auditor's skepticism will have an impact on the timing, nature, and extent of audit procedures. Halo Effect causes auditors to test unilaterally and look for evidence that is consistent with their hypotheses and choose to accept allegations rather than looking for all relevant evidence so that auditors are reluctant to look for other alternatives ([Shefrin, 2007](#)). This has an impact on the accuracy of the judgments produced by the auditor in completing his audit work to influence low-quality audit decisions. This research is in line with the research of [Octavian & Intiyas \(2016\)](#), that the high influence of Halo Effect will produce audit decisions with a low level of accuracy. The research of [Arel et al., \(2005\)](#) and [Santoso \(2013\)](#), explains that Halo Effect will make auditors tend to believe in their initial assessment so that it will produce inappropriate audit decisions.

4. Conclusion

Based on the results of the analysis in this study, it can be concluded that professional skepticism has a positive effect on auditor performance and the halo effect weakens the effect of auditor professional skepticism on auditor performance. This shows that the higher the professional skepticism of an auditor will directly improve the auditor's performance, but if the halo effect occurs on the auditor, it will reduce the influence of professional skepticism in improving auditor performance.

Based on the results of the analysis and conclusions, the suggestions that can be given to auditors, public accounting firms and subsequent research are as follows: Auditors should adopt high professional skepticism in carrying out audit assignments to avoid the occurrence of halo effects and for public accounting firms, broadening the understanding of its staff in relation to the code of ethics of public accountants and encouraging professional skepticism through training or seminars related to professional skepticism. Future studies can conduct in-depth interviews with respondents related to research variables to obtain more information from respondents so as to maximize the extraction of data and information needed for research.

Conflict of interest statement and funding sources

The authors declared that they have no competing interest.

Statement of authorship

The authors have a responsibility for the conception and design of the study. The authors have approved the final article.

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